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RELATION OF THE STATE  
TO  
INDUSTRIAL ACTION.

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INTRODUCTION.

In his latest contribution to the discussion of social topics, Mr. Spencer has collated, for the benefit of his readers, a long list of acts passed by Parliament pertaining to industrial affairs. These enactments he regards as an invasion of the domain of personal liberty, because an encroachment upon the “*régime* of contract.” He conceives it as beyond question that “government is begotten of aggression and by aggression,” and for that reason deprecates the willingness on the part of legislators to pass laws regulating the processes of production, or extending the administrative duties of the state. His idea seems to be that the most perfect society which it is possible to realize under given conditions, must emerge from the struggle for individual existence under “voluntary coöperation.” All this, as is well known, is the doctrine of *laissez-faire*, presented it is true, in a clear and powerful manner, yet presented without modification or apology. That Mr. Spencer would not dissent from such an interpretation of his four articles, published under the title of “The Man *versus* the State,” is shown by the severity of the

implied censure which he visits upon the Cobden Club, for having awarded its prize in 1880 to an essay which declared, that "the truth of free trade is clouded over by the *laissez-faire* fallacy."

These articles by Mr. Spencer are most interesting and instructive, and much which they contain seems to me to be true. Ignorant legislation is certainly criminal legislation.<sup>1</sup> Laws which rest upon the assumption that government is *in loco parentis* to its subjects, will never witness the development of a people of manly and independent intelligence. The homely maxim that every tub must stand on its own bottom, as also the more ambitious one that every man is the center of his own universe, suggests sound social truths which legislators cannot afford to disregard. "The intrusion of family ethics into the ethics of the state," by which philanthropy becomes compulsory and misfortune establishes a claim, is illogical to say the least, and will probably result in harm.<sup>2</sup> Nor is anyone more ready to admit than myself, that laws which purpose to supplement the income of laborers by state aid, will surely result in the decrease of wages, a conclusion which is amply supported by the history of the English poor-laws during the last century.<sup>3</sup> And especially pertinent does it appear to me to accept the ultimate effects rather than the immediate results of legislation as the final test of its wisdom, for it is a truth too often forgotten that laws make up the artificial environment to which society in its development must conform.<sup>4</sup>

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<sup>1</sup>The Man *versus* the State, p. 47.

<sup>2</sup>Idem, p. 66.

<sup>3</sup>Idem, p. 22.

<sup>4</sup>Idem, p. 23-24.

And yet, notwithstanding the many truths contained in this interesting discussion, its main conclusions are regarded as untenable by many whose intellectual discernment is at least respectable. It is by no means universally admitted, even among the studious, that the power of government, which properly interpreted is but the authoritative expression of the will of society, should be more sparingly used as society becomes more complex; nor does it pass without question that the best possible results will in all cases follow "voluntary coöperation" under the "*régime* of contract." Indeed there are many men who presume to think a higher code of morality may be realized in business affairs than is imposed by the unregulated workings of the law of supply and demand. Such claims as these are, of course, a distinct denial of the finality of Mr. Spencer's philosophy of social relations, and consequently of the completeness of the analysis upon which it rests. But it is not my purpose to enter upon a critical analysis of this philosophy. Such a task should certainly have been begun with a frank acknowledgment of the indebtedness of the world to the author of this system. The attention of the reader has been drawn to these latest expressions of Mr. Spencer merely for the purpose of showing that, in the mind of the great English philosopher at least, the question of the relation of government to industries is a question of great practical importance. Indeed, its bearing upon current affairs is so direct, that all men of thought desire not only to have an opinion, but a reason for their opinion.

Yet it seems hardly necessary to resort to such a measure for the purpose of emphasizing the impor-

tance of the theme treated in this essay ; for, in the entire range of social and political problems, there are but few which do not, either directly or indirectly, touch upon the power and ability of the government to control industrial action. The railroad problem, for example, has in this country passed beyond the stage at which the right of legal control is contested. That point was settled by the interpretation of the courts on the "granger laws," and the only question which at present remains has to do with the manner in which the needed control may be successfully exercised. Education is now quite generally regarded as a proper object for the care of government, and its support as a proper source of public expenditure. It is true that the same phase of this problem is not presented to all people. The English are inquiring how to establish secondary education to the best advantage, the people of this country, on the other hand, having determined upon the general principles according to which that grade of education should be managed, are turning their attention to technical education, but in neither case is there serious objection to the appropriation of public moneys for such purposes. Or to speak of social problems and labor agitations, we find the sentiment of the great majority of people whose lives are touched by these questions to be largely colored by the thought that somehow governmental agencies are to cure the evils of which complaint is so justly made. Consider for a moment the varied and extensive demands which self-appointed representatives of the laborer's interests make upon government. The government is to build houses for men; the government is to strike bargains

for men; the government is to make play for men; the government is to find work for men; indeed, all that men want done, or think they want done, they want, or think they want, the government to do. And it would but strengthen the impression thus gained were we to consider with care the systematic plans of state socialists for revolutionizing industrial affairs.

How may we properly regard such a tendency in public thought? It will add somewhat to my sense of intellectual liberty in making reply to this question, though it may perhaps be unnecessary, if I say, that the opinions expressed throughout this essay are personal opinions, and should not be regarded as representative in character. A new school of thought must of necessity present a less solid front than an established school. Speaking then for myself, I may say, that I sympathize most profoundly with the apprehension expressed by Mr. Spencer in his doleful articles. It is certainly true that much of current legislation enfolds within itself the seeds of a "coming slavery," and that the confidence reposed by unthinking men in the agencies of government springs from the natural optimism of the human mind, rather than from a careful analysis of what the government is. But our escape from the pernicious consequences of such a tendency will not be found in the continued proclamation of a negative philosophy. The only scholarly course lies in subjecting social and industrial relations to a deeper analysis than is presented by those who submit superficial plans of reform. Or, again, it may even be admitted that government is a weak and inefficient thing, obedient to the nod and beck of private interests. But it does not follow from such an admission

that a wise man will knowingly render government yet weaker, or more corrupt and more inefficient, by continuing to preach the illogical doctrine of *laissez-faire*. It is at the instance of such suggestions as these that my own thought parts company with the trend of opinion which passes under the name of English economy.

The facts in the case are these: There is at the present time a growing clamor for more government, and, with manhood suffrage, such a clamor will surely secure that which it demands. But government is not a simple or a homogeneous thing. The extension of its functions may mean the extension of any of the three departments into which its powers are necessarily divided, namely: the judicial, the administrative, or the legislative department; or it may result in changing the balance of the powers distributed between the various grades of authority: the Federal government, the State government, and the minor civil divisions. It seems, then, there are several ways in which this demand for more government may be supplied, and in view of the fact that the social workings of public authority are very different according to the nature of the authority, or the center from which it is exercised, and in view of the further fact that the preaching of a philosophy of negations is powerless to quiet the clamor to which existing social evils has given rise, it seems but common sense for men of mental discernment to seek to direct the extension of public authority. This is equivalent to saying that the subject of this essay is pertinent to the times.

This same thought may be presented in another and perhaps a clearer light. It is fact which politi-

cians visit with reproach upon economists, that men who received their education previous to 1860, and who came from college believing in free commercial intercourse as in a new gospel, have, with their maturer years, felt obliged to confess the optimism of their youth to have been a mistake. But in reality there is nothing remarkable in such a fact when it is remembered that the free trade of that day was but a logical conclusion from the dim and uncertain premises of Bastiat and the Manchester school of economists. For it was found by these men, in the actual management of business affairs, that the premises which as students they had accepted were not of universal application. It was observed, for example, that the tyranny of corporations, which grew naturally from conditions of "industrial freedom," was as grievous as any tyranny ever established by government agency. In this respect, at least, the theory "that Liberty is the fairest of social Harmonies" did not work as their professors had promised. Since, however, political economy had been pursued by them as a mixture of logic and philosophy, rather than as a phase of social development, they did not possess that habit of mind which easily discriminates in the application of principles. It followed as a matter of course that they abandoned free trade. Such is believed to be the mental history of many men of influence in the United States.

But such a surrender of the doctrine of free-trade, though serious enough in itself, is of slight importance when compared with the tendency of which it is a specific illustration. The most unfortunate consequence of so vicious a method of education in economics is found in the fact that the collapse of faith



in the sufficiency of the philosophy of *laissez-faire*, has left the present generation without principles adequate for the guidance of public affairs. We are now passing through a period of interregnum in the authoritative control of economic and governmental principles. This is indeed cause for grave solicitude, for never were there more difficult problems demanding solution than at the present time, and never were men so poorly equipped for the accomplishment of such a task as are those upon whom these questions are being forced. Herein lies the especial pertinency of the topic considered in this essay. Principles of action we must have, for nothing is so mischievous as the attempted solution of great questions on the basis of immediate interests alone. An erroneous principle, indeed, is better than no principle at all, for it can at least secure some degree of harmony in social affairs. The problem may be stated in a word, as follows: The authority of English economy is shattered beyond recovery; can a truer system of economic thought gain control over the American mind?

#### ANALYSIS OF THE DOCTRINE OF LAISSEZ-FAIRE.

It is impossible, in any discussion upon the proper extent and nature of state functions, to evade the necessity of granting the doctrine of *laissez-faire* a rehearing. No doctrine could have gained such a respectable following except it contained some truth, and it is wise to search for that truth. But of more importance than this, it is against the assumptions of this doctrine that the theory of extended state functions is urged, and for that reason it is natural to

expect its analysis will suggest some rules for directing the action of government. That system of thought known as *laissez-faire* has been termed vague, elusive and indefinite; but such expressions are quite incorrect. Indeed, its great influence over the minds of men is largely due to the compactness with which it may be presented, and to the logical form of which its statement is capable. "When those who have been called the *laissez-faire* school have attempted any definite limitation of the province of government," says Mr. Mill, "they have usually restricted it to the protection of person and property against force and fraud."<sup>1</sup> From this it appears that, in speaking of the claims of *laissez-faire*, we are dealing with a rule laid down for the control of all matters of government, and have to do with "permanent and universal principles of human nature," only so far as we undertake to explain the basis upon which it is conceived to rest.

But this rule which places the government outside all positive direction in industrial affairs may be held in either of two ways. It may be accepted as a premise of universal application to which all legislation must conform, or it may be regarded merely as a maxim, though a maxim with presumption always in its favor. It need hardly be remarked that Bastiat, who mistakes satire for argument, and whose easy writing has been frequently accepted for clear thinking, stands as the representative of this first theory of interpretation. He does not carry his analysis far enough to distinguish between competition as a principal of action, and *laissez-faire* as a dogma for the guidance of government; but defin-

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<sup>1</sup>Principles of Political Economy, Book V, ch. 11, sec. 1.

ing competition as freedom from restraint, and freedom from restraint as liberty, he conceives all the complicated questions of society to have been asked and answered when he exclaims: "Who so base as to be a slave!" It is such reasoning as this, reasoning which confuses the student by confounding realities with fancies, that is in large degree responsible for the ineffectiveness of economic teachings.

It does not, however, seem necessary to dwell long upon the extreme statement of the dogma of *laissez-faire*. Practical men have expressed a decided unwillingness to accept a premise which precludes the possibility of discussing many problems of current interest. They desire to decide according to observed results, rather than on the basis of an assumed premise which admits of one conclusion only. Nor would it be right to say that all economists, who are properly regarded as members of the English school, maintain the doctrine of non-interference in its extreme form. Thus Mr. Mill follows the statement of his definition, which I have given above, with the remark that it presents a rule to which strict adherence is impossible, for "it excludes some of the most indispensable and unanimously recognized functions of government;" but when he proceeds to mention these exceptions, he does not go very far beyond the simple rule laid down. Professor Cairnes, also, after a critical analysis, concludes that the doctrine of *laissez-faire* establishes no rule of scientific pretensions, although in his opinion it is one to which governments should in the main conform. It seems to have been the purpose of Professor Cairnes, as shown in his writings, to turn the current of economic thought back to Ricardo, and,

avoiding certain mistakes which he believed others to have made, to develop from the Ricardian doctrines a more consistent and truer line of thought. It is for this reason that his views upon the scientific pretension of *laissez-faire* are of much importance.

In proceeding to argue this point, he says:

"I must ask you in the first place to note what this doctrine of *laissez-faire*, if it is to be taken as a scientific principle, really means. The implied assertion, as I understand it, is this: that, taking human beings as they are, in the actual state of moral and intellectual development they have reached; taking account of the physical conditions with which they are surrounded in the world; lastly, accepting the institution of private property as understood and maintained in most modern states—the promptings of self-interest will lead individuals, in all that range of their conduct which has to do with their material well-being, spontaneously to follow that course which is most for their own good and for the good of all. Such is the assertion with which we have now to deal, and you will see at once that it involves the two following assumptions: first, that the interest of human beings are fundamentally the same—that which is most for my interest is also most for the interest of other people; and secondly, that individuals know their interests in the sense in which they are coincident with the interests of others, and that, in the absence of coercion, they will, in this sense, follow them."<sup>1</sup>

This is without doubt a fair statement of the question at issue. If these two propositions are capable of substantial proof, there is no escape from the practical conclusion that society will realize the best of possible results from the unregulated freedom of individual action; but if, on the other hand, either of these propositions are found to be in error, we must abandon at least the universality of the rule of non-interference as a premise of public legislation. It may perhaps be admitted that fundamentally, and in the long run of two or three generations, the interests of all members of society are the same;

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<sup>1</sup>Essays in Political Economy. p. 244.

although, as Professor Cairnes himself remarks, this should not be confounded with the statement that class interests are identical. It is true that society is organic and not mechanical, and that each part suffers with the refusal or inability of any other part to perform its ordinary functions. This thought is readily admitted by even the most extreme of socialists and is made by them the apology for much which they advocate in favor of extending the duties of the state.

But the second proposition cannot be admitted as of universal application. It is not true that, when a man advances his own interests or what he believes to be his own interests, he thereby necessarily advances the interests of society. This may be the case and again it may not. It seems hardly necessary to illustrate at length a fact which finds continual proof in the ordinary experiences of men's lives. The entire railroad history of this country, as of every country which has endeavored to realize in construction and management the doctrine of restricted governmental control, serves to illustrate how false is such a claim. The interests of construction companies, for example, have led to the creation of twice as much railroad property in the United States as the needs of the country require. This is a misapplication of capital, a misdirection of industrial energy, and can have no other result than to obstruct healthful growth. Yet the construction companies have made it pay. Or, if we turn to consider the management of such railroad lines as are now built, we see that this excess of railroad property necessitates the adoption of false principles for adjusting tariffs. The management of the grain ele-

vators at Buffalo is railroad management in miniature. As stated by a special committee of the Assembly of New York in 1880, there were at Buffalo thirty-four elevators, of which twelve only were needed to do the work of elevating. "It makes no difference," says the report, "what elevator does the work, all get their respective shares of the money earned. One of these has not been used in twenty years, and many of them, according to the testimony, were built for the sole purpose of coming into and receiving a share in the pool."<sup>1</sup>

The same principle that useless property must be paid for, is found in the management of smaller circles of industry. The Wall-paper Association pays to the owner of a paper-mill on Long Island the sum of \$25,000 a year for not running a mill. It is said, though for this I only have newspaper authority, that Mr. Chamberlain, the English statesman, receives payment each year for not sending screws to this country. Or if we turn our attention to workmen's unions, we find that they administer the apprentice rules in such a manner as to tend to establish within their order an aristocracy of labor, thus decreasing product and in consequence the fund from which all labor must be paid. These illustrations were brought to our notice, not for the purpose of leading to a discussion of the policy of pooling, but rather to enforce the truth that there exists a necessary antagonism between the actions of men when directed by personal motives, and their action when made to conform to the social interests. Even Bastiat recognized the "anti-social" interest of the

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<sup>1</sup> Report of the Special Committee on Railroads. Albany, N. Y., 1880, p. 15.

producer, and for that reason took the interest of the consumer as the true test of right action.<sup>1</sup>

But I cannot think this the most satisfactory manner of exposing the fundamental error in the philosophy of *laissez-faire*. It was said above that the strength of this doctrine lay in the simplicity of its statement, and in the logical form of which its argument is capable; but a careful student, so far from being deceived by this, will rather be assisted in detecting any mistake with which the argument is chargeable. It is evident that the second of the propositions accepted from Professor Cairnes, is the minor premise of a syllogism of which the first proposition serves as a major. The formal statement then of this syllogism would be as follows :

*Major premise.*—All human interests are the same.

*Minor premise.*—Each man knows his own interest, and if left to himself, will follow it.

*Conclusion.*—The best possible form of social relations will emerge from the unrestricted play of industrial freedom.

We need not trouble ourselves to criticise the wording of this conclusion, or to inquire what is intended by the expression “industrial freedom,” for the argument has gone astray before the conclusion is reached. Indeed, it disregards the most elementary of the rules of logic, for the words used do not bear the same meaning in all parts of syllogism. Thus the major premise contemplates the fundamental or the ultimate interests of men, while in the minor premise it is the immediate interests that are brought to view. But it is a fact with which men are painfully familiar, that even in their personal affairs,

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<sup>1</sup>Sophism of the Protective Policy, Lieber edition, p. 28.

they are prone to sacrifice their ultimate interests for their immediate pleasure, and that the motives which control their actions are strong in a ratio inversely to the remoteness of the pleasure to be gained or the pain to be warded off. How then can it be reasonably concluded that the social interest, which is usually the remote interest of the individual, will be in the highest degree served by granting unobstructed play of industrial freedom? There must be, for organisms of an advanced development, a higher law than the law of personal struggle for individual existence.

Or, to proceed a step further in the direction which this criticism points out, the interests which control individual action are frequently speculative interests, while the idea of speculation is foreign to the most simple conception of society. By the word speculation is to be understood any transaction which permits a man to make a personal gain at the expense of his fellow-men. A gambler, whose earnings are balanced by the losses of those with whom he plays, belongs to the large army of speculators. The holding of real estate for a rise in value is speculation. When a merchant charges more for goods than is adequate to cover a fair return for his labor and risk in buying and arranging them for sale, he too becomes a speculator. Or should the force of competition compel him to sell goods at a loss, the speculative character of the transaction is not changed because his customers happen to be the gainers. In short, speculation consists in the endeavor to gain possession of more value than one creates, and the familiar adage that "speculation is the life of trade" shows that men have come to regard this purpose as



a legitimate motive for personal conduct. But society recognizes no such interest. Society is a unity and permits of no comparative estimates. Its gains are creations of values, its losses destructions of values. How then is it possible to say that a syllogism which confounds two such diverse things as an absolute interest and a relative interest can lead to truth?

This is not exactly the manner in which Professor Cairnes presents the subject, but it is in harmony with the conclusion which he formulates. "There is no security," he says, "that the economic phenomena of society, as at present constituted, will always arrange themselves spontaneously in the way which is most for the common good. In other words, *laissez-faire* falls to the ground as a scientific doctrine." But two things are to be noticed with regard to the views of Professor Cairnes. First, he does not accept the opposing doctrine of paternal government, but holds himself at liberty to consider every question on its own merit; second, he does not appear to perceive the necessity of formulating another principle for the control of social and industrial development, which may take the place of the one whose authority he has overthrown.

"Let us be careful," says he, "not to overstep the limits of our argument. It is one thing to repudiate the scientific authority of *laissez-faire*, freedom of contract, and so forth; it is a totally different thing to set up the opposite principle of state control, the doctrine of paternal government. For my part I accept neither the one doctrine nor the other; and, as a practical rule, I hold *laissez-faire* to be incomparably the safer guide. Only let us remember that it is a *practical rule*, and not a doctrine of science; a rule in the main sound, but like most other sound practical rules, liable to numerous exceptions; above all, a rule which must never be allowed to stand in the way of a candid consideration of any promising proposal of social or industrial reform."<sup>1</sup>

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<sup>1</sup>Essays in Political Economy, p. 251.

It is certainly granting English economy a most favorable interpretation to accept Professor Cairnes as its spokesman in this matter, and it is by no means certain that all its advocates would admit his representative character. Some economists, indeed, yet live who maintain, with heroic devotion, the philosophy of negative action, while others, who may not, perhaps, sympathize with the extreme statement of the theory of individualism, would nevertheless object to the language in which its modification is here presented. And it must be admitted that a great deal depends upon the manner in which one's views are expressed. The concessions granted by Mr. Mill, for example, amount to little when we notice how strictly he guards his exceptions to the rule, that the state should not interfere with industrial action. "*Laissez-faire*," he says, "should be the general practice; every departure from it, unless required by some great good, is a certain evil." But we need not trouble ourselves with the varying views of important economists, for it will do no violence to the general trend of opinion to proceed upon the assumption that the doctrine of non-interference is now held as a maxim and not as a principle of scientific pretensions. Or to adopt the familiar phrase of those who advocate the modified form of *laissez-faire*, there is in all cases a strong presumption against state action, and in favor of what Mr. Spencer calls "the *régime* of contract."

We have now arrived at the critical point in our analysis. Is this view of the case tenable? May we rest satisfied with accepting the presumption against state activity as a sufficient guide for constructive work in economics? It will probably be conceded

that this modification of the old doctrine is an advance upon the opinion which held the dogma of non-interference to be identical with the principle of individual liberty, and which assumed reasons for the latter to be arguments for the former. But the economist desires to go one step farther. The important question with him is the following: Has Professor Cairnes restored to political economy its old-time authority by admitting possible exceptions to the premise on which it is built, or has he only succeeded in marring its symmetry and destroying its logical form? It must certainly go hard with those who, educated in scientific methods, are thus left with a system of thought on their hands, from which the scientific pretension of its fundamental principle of human relations has been taken away. This amendment to the old doctrine has reduced English Economy from the dignity of a science based on a principle to a philosophy based on a maxim.

And yet they who advocate the modified form of *laissez-faire* make a great parade of its authority, and urge that the old economy has not been radically changed by admitting the modification. It is to me indeed strange how a logical mind could have arrived at such a conclusion, and the only interpretation of which this seems capable is, that they who maintain it can never have fully appreciated the grand simplicity and symmetry of the old doctrines at the time when they swayed the minds of men. There was behind the Physiocrats, for example, an irresistible power when they appealed from the artificial arrangements of the eighteenth century to the authority of the law of nature. It is true there was no real thing corresponding to their conception of a law of nature, but

they did not commit the strategic blunder of carrying through a line of argument on the assumption of its existence, and then proceed to classify the conditions under which society could safely disregard its demands. They did not say "there is a strong presumption" in favor of obeying nature; or that "it is a sound maxim" to obey nature; or that "it should be the general practice" to obey nature. Had they proceeded in this manner they would never have gained influence over the minds of men, for this would have been an admission that common sense is superior to a scientific principle. Yet this is the unfortunate position into which Professor Cairnes, by his trenchant analysis of the scientific claims of *laissez-faire*, has brought English economy. In its present condition it is a system of thought whose formal arguments are quite in harmony with the assumption that there exists a premise of action of scientific pretensions, but the life and force is taken from these arguments by the denial of such a premise.

The truth then, with regard to the modernized statement of English economy, as compared with its original presentation, is this: In its original form it was conclusive as an argument though based upon an erroneous premise; in its modernized form the error of its premise has been corrected, but its conclusiveness as an argument has thereby been destroyed. It is for such a reason that I cannot regard the modifications suggested by Professor Cairnes as satisfactory. I can understand Mr. Spencer, for he is logical and consistent throughout. I can even understand Professor Sumner, and take pleasure in reading his sweeping generalizations. But I cannot

understand the habit of mind which rests satisfied with a philosophy of social or industrial relations not founded on principles, for such a position is wholly unscientific. It is a common complaint of men trained in the schools that practical men disdain theories. But certainly these economists of the modern English school cannot justly utter such complaint; for the practical men who deify their common sense, and who boast of judging every question on its own merits, follow to the letter the line of reasoning which the latest books lay down. English economy lost its authority because it abandoned principles and took to presumptions. It can never regain its authority until it returns to principles, though these must be broad enough and deep enough to comprehend all the various phases of activity in industrial society. This is the problem for the "new economy," and nothing but its solution can warrant the claim that a new economy has been born.<sup>1</sup>

My readers need not be at all solicitous lest the views here expressed should disparage the influence of the presumption against the interference of the state in industrial affairs. The truth underlying the modified form of the doctrine of *laissez-faire* is unimpaired by the collapse of the elaborate argument upon which it was believed to rest. And what is

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<sup>1</sup>I may perhaps be permitted to say in a note, though it would be out of place in the text, that I cannot regard history as adequate to take the place of the principle of individualism which has been forced to abdicate its seat of authority. History is admirable as a tool, but can never perform the functions of a principle in a system of thought. It seems to me that the problem in hand is much more difficult than many students are willing to admit. It is nothing less than the formulation of a sociology into which the science of industrial society may find its proper chapter.

that truth? Should we follow in our analysis far enough we would perceive it to be nothing but the statement of a common sense rule of conduct, viz.: that it is wise to be conservative. Any institution or custom capable of maintaining itself rightly claims presumption in its own favor as against an untried plan, however plausible. This truth, then, is the expression of the instinct of conservatism so strongly developed in the English and American character. At the present time the rule happens to hit those economists who propose to extend the functions of government, for the established thing, so far as domestic affairs at least are concerned, is individual and not governmental control. But this coincidence is an historical accident. The presumption would be against the extension of individual control if the state were in possession of the field. It is this fact, this accidental coincidence between the judgments which spring from natural conservatism and the presumption against extending the duties of the state, which deceives men, and brings them to think that the modified form of *laissez-faire* yet bears with it an authority. Its authority is nothing more than the authority which always rests with an established fact.

In the foregoing analysis I have endeavored to establish two conclusions. First, that the doctrine of *laissez-faire* cannot lay claim to scientific pretensions. Second, that the abandonment of its scientific pretension destroyed whatever authority English economy ever had as a guide for constructive economics, except so far as it is an accidental expression of the instinct of conservatism. My further analysis proceeds upon the assumption that the

reader is willing to grant these conclusions to have been established. It is quite natural that men who arrive at this point in their study of social relations, should turn eagerly for relief to those writers who first pointed out the error of the old system; a fact that may, perhaps, explain the readiness with which so many American economists have accepted the teachings of German investigators. The rule for separating the duties of the state from those of the individual, as laid down by German writers, is quite different from the one we have thus far considered; indeed it is the re-statement of the English rule with a reversal of its terms. In all cases of doubt, it is distinctly German to say that presumption lies with the state and against the individual. It would of course be incorrect to say that all writers hold to this rule, for, as in England there are many who are not English economists, so in Germany there are some who do not regard the state as the final thing in social analysis. But it is nevertheless true that the views just expressed are characteristic of German economic philosophy and fairly realized in German polity.

It is not my purpose to consider this rule at length. So far as it rests upon analysis it proceeds from the assumption that some industries are from their nature "sovereign in character." Thus all businesses pertaining to transportation, as railroads, expressage, telegraphy, postal service, and the like, pertain naturally to the state. These are the nerves and arteries of the body politic, and should be directed from a common center. It is indeed a little ludicrous to notice the almost superstitious reverence with which a certain class of German writers trace out the analogy existing between the social organism and physi-

cal organisms. But the more rational thought seems to be that the government may properly take the initiative and control in all forms of business which possess what is termed "the collective interest," and since so many businesses are observed to fall into this class, German writers have cut the matter short by saying that presumption lies with the state, and by throwing upon individuals the burden of proof. This contrast between the trend of the English and the German mind bears for Americans a deep significance. We have already discovered that the doctrine of *laissez-faire*, since it has passed through the hands of Professor Cairnes, amounts to nothing more than a declaration in favor of the wisdom of conservatism. We may now perceive that the rule which the German investigators adopt is also a declaration in favor of conservatism. Each people has established its practical presumption in favor of the state of affairs with which it is familiar. In England, where the philosophy of individualism permeates all thought, the presumption is in favor of private enterprise; in Germany, where the state is the center of all interests, the presumption lies in the opposite direction. Yet the mental characteristic which leads to these diverse conclusions is the same for both peoples. Is it not, then, clear that the philosophers of both schools condemn by their example any blind subservience to what they teach? And is it not absurd for American economists to array themselves in opposing schools as advocates of what is English or what is German? I am not arguing for obstinacy but for independence. The American people certainly have much that is common to both of the great peoples mentioned, but they have also much that is peculiar



to themselves. Their history, though rooted in the past, is yet of their own making ; their nationality is colored by the diverse sources from which their citizens are drawn ; their physical surroundings have been such as to intensify a spirit of self-dependence ; does it not then follow that they must build out of such material as they have at hand ? Certainly no set of men should be so ready to maintain intellectual independence, in the domain of constructive economics, as they who, at the great universities of Germany, have learned how to read the true lessons from history.

It will be impossible to proceed farther without giving direct expression to my own opinions. Neither of the views respecting the relation of the state and industries which we have considered can be regarded as satisfactory, or as resting upon adequate views of the nature of society. There is no overpowering presumption in either direction, and to admit of one is to cover up the point at issue. It is true there is a sense in which the state stands opposed to the individual, but we cannot expect to discover a guiding principle for public control so long as our analysis proceeds upon such an hypothesis. The fundamental error of English political philosophy lies in regarding the state as a necessary evil ; the fundamental error of German political philosophy lies in its conception of the state as an organism complete within itself. Neither the one nor the other of these views is correct. *Society* is the organic entity about which all our reasoning should center. Both state action and the industrial activity of individuals are functions of the complete social organism. The state is not made out of the chips and blocks left over after

framing industrial society, nor does industrial society serve its full purpose in furnishing a means of existence for the poor unfortunates who are thrust out of the civil or the military service. Society, as a living and growing organism, is the ultimate thing disclosed by an analysis of human relations; and because this is true it is not right to speak of a presumption in favor of individual initiative or of state control, as though these stood like contestants opposed to each other. It is not proper to consider individual activity as supplementary to state powers, or to look upon the functions of the state as supplementary to personal activity. It is futile to expect sound principles for the guidance of intricate legislation so long as we over-estimate either public or private duties; the true principle must recognize society as a unity, subject only to the laws of its own development.

#### PRINCIPLES THAT SHOULD CONTROL INDUSTRIAL LEGISLATION.

There are two classes of thinkers with whom I have not the fullest intellectual sympathy; the one comprises those who rest satisfied with criticism, the other those whose critical analysis leads only to exhortation. Though each is useful in its way, neither renders to society the highest service of which scholarship is capable. For the end of criticism is construction, and its service should be to point out the way in which men may avoid the recurrence of mistakes disclosed. Applying this thought to the subject in hand, it now becomes our difficult task to search for those principles to which industrial legislation should conform, for there can be no greater

misfortune than this, that legislation should proceed blindly, controlled only by what practical men call expediency.

Much of the confusion that now surrounds the question of the appropriate duties of government, so far as the people in this country are concerned, is due to the failure to distinguish between *laissez-faire* as a dogma and free competition as a principle. The former, as we have seen, is a rule or maxim intended for the guidance of public administration ; the latter is a convenient expression for bringing to mind certain conditions of industrial society. Thus when one speaks of the benefits of free competition, one means the benefits conferred by industrial freedom. And when one argues for free competition, one is called upon to show that the best possible results may be expected for society, as a whole, and for each member of it, when labor is free and independent, when the right to acquire and enjoy property is guaranteed, when contracts are defended, and when every man is obliged to stand on his own legs, enjoying to the full the fruits of his own labor and suffering to the full the barren harvest of idleness. It seems that there should be no reasonable doubt respecting the benefits that must flow from such an organization of society, and I for one have no quarrel with those who urge its realization as a worthy object of endeavor. But I do take serious issue (and this is the important point to be observed), with those who hold that the rule of *laissez-faire* indicates the way by means of which such a state of affairs may be established and maintained. The claim that laborers should be free and independent is readily admitted, but at the same time it is denied

that the language of public law, which makes all men equal before it, is a guarantee of freedom and independence; the right to acquire property is heartily endorsed, but it is also urged that property should not be acquired in such a manner, or to such a degree, as to defeat the purpose for which the right was granted; the necessity of maintaining contracts is conceded, but it must not be forgotten that the liberty of contract is a mere corollary of personal liberty. It cannot then be said that they who deny the sufficiency of the dogma of *laissez-faire* do so because they fail to appreciate the advantages of competitive action. It is true that some are open to this charge, but, on the other hand, many who believe the theory of individualism no longer applicable to modern relations, are quite willing to recognize competition as a beneficent social principal. They do, however, say that the benefits of this principal can never be realized through the uncontrolled play of private interests, carried on in harmony with existing property right.

It is unfortunate, though it is a natural consequence of the proneness in human nature to establish parties, that discussion upon this question has led to the formation of opposing schools of thought. Individualists and socialists maintain extremes of opinion respecting the nature and working of competition.<sup>1</sup> The former hold it to be necessarily a benevolent principle; the latter regard it as inherently a malevolent principle. Individualists, therefore, would

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<sup>1</sup>There is little need of testimony to this statement respecting individualism, but the claims of socialism may not be as familiar to my readers. I know of no better characterization of socialism as a scheme of economic thought than may be found in the six proposi-

grant it the freest play, and on this account advocate *laissez-faire*; socialists would exclude it from the society which they propose to establish, at least as a directing and controlling agency, and to this end propose a socialistic state. Upon one point only do these leaders of opposing opinions agree, and that is in the opinion that the denial of one view involves the acceptance of the other. There is no peace for an economic mugwump.

Nevertheless I venture to suggest that the question here involved is not one of excluded middle. Competition is neither malevolent nor beneficent, but will work malevolence or beneficence according to the conditions under which it is permitted to act. If this very reasonable view of the case be admitted, it follows that we may escape the practical conclusions of both socialists and individualists; or at least, so far as we accept their proposals, we may rest our decisions upon some sound analysis of social relations. We may admit with Louis Blanc, that great evils fol-

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tions upon which Louis Blanc based his system. I give them as summarized by Dr. Heinrich Contzen:

1. The deep and daily growing misery of the masses (*du peuple*) is the greatest misfortune.
2. The cause of the misery wherein the masses live is competition.
3. Competition is likewise for the property owners (*la bourgeoisie*) the cause of their ruin.
4. Government is the highest orderer of production and as such must be clothed with greater power.
5. The state as the greatest capitalist has this duty to perform, that through its competition private competition should be made to disappear. To this end national workshops must be established at the cost of the state.
6. Such wages must be paid as in every case to richly provide for the existence of the laborers.—(*Geschichte der Socialen Frage von den ältesten Zeiten bis zur Gegenwart*, von Dr. Heinrich Contzen. p. 128.)

low the unbridled passion of accumulation, and recognize with Adam Smith, that personal interest in work done is the life of healthy industry; yet at the same time we may deny that the state should crush out all private control in business, and refuse assent to the doctrine that police duties exhaust the proper functions of government.

This presentation of the problem suggests the general principle according to which the relation of governmental agency to industrial affairs should be adjusted. It should be the purpose of all laws, touching matters of business, to maintain the beneficent results of competitive action while guarding society from the evil consequences of unrestrained competition. This may seem a truism, but its statement is necessary as the starting point for constructive study. It is at least sufficiently distinct from either the English or the German rule, as above stated, to warrant the belief that it may serve as the basis of a wholly different system of thought. For, according to this view of the case, neither governmental activity nor private enterprise exists by suffrance. There is no presumption for or against either the one or the other in itself considered, for both are essential to the development of a highly organized society, and the purpose of constructive thought should be to maintain them in harmonious relations.

But what are the beneficial workings of competition? Modern industrial society is built upon four legal facts: Private property in land, private property in labor, private property in capital, and the right of contract for all alike. The development of these rights, which required centuries for its accomplishment, portrays the growth of individualism and the decay of com-

munalism; and no one who fully appreciates the opportunities thus offered, as compared with the opportunities offered by an industrial society based on slavery, or on undeveloped or general proprietary rights, can seriously advocate a return to the conditions of the past. The peculiar claims urged in favor of a society organized on the competitive basis are familiar to all. Perhaps the most important of these is that men are in this manner guaranteed full enjoyment in the fruits of their labor, and on this account will be jealous in its application. Competitive society also provides for ease of movement from one grade of labor to another, or from one business to another, and thus ensures elasticity in thought and expansion of purpose as the result of the manner in which motives are applied to individual conduct. Under such conditions, it is the future and not the past that claims the attention of men. It is hope and ambition, rather than fear and apprehension, that move the energies of men. We should not forget that the material progress of the nineteenth century is in large measure due to the mobility of action which the idea of equal rights before the law brought into modern life. It may, however, be remarked in passing that the energy displayed in modern society is due to the openness of opportunity in all forms of industry. Each competitor imagines himself the successful runner for the prize he seeks; but should the practical difficulties of attaining success ever come to be so great as to restrict the number of contestants, the healthful activity which now follows high anticipations would be replaced by the lethargy of hopelessness. It is a mistake to conclude that equal opportunities are

surely maintained by granting equality before the law.

Again, wherever the conditions for competitive action are maintained, society has a guarantee that goods will be produced at the lowest possible cost; for the hope of personal gain leads to the best disposal of labor, to invention, and to the adoption of the best machinery. Assuming the same premise, society has also a guarantee that the goods produced will be placed upon the market at fair prices. It is unnecessary to enter upon any explanation of the manner in which this guarantee works, for popular economic philosophy devotes much of its attention to an elaboration of the reasoning here suggested; and our only quarrel with popular economic philosophy is that it arrests its analysis of industrial relations after discovering the advantages which might accrue to society, could the conditions for competitive action be maintained. It refuses to inquire what is necessary on the part of the state to ensure the maintenance of such conditions, or to proceed in its study to the consideration of the evils that flow from individualism in industrial life. But assuming the dogma of *laissez-faire* to be the most practical method of establishing competitive action, it shuts itself up to a sort of fatalism and witnesses with a stolid countenance the fruitless efforts of men to realize a rational existence.

But what are the evils of unrestrained competition; or, more accurately stated, what are the pernicious results of the attempted realization of competitive action under the direction of the doctrine of *laissez-faire*? I cannot hope to present a complete answer to this question, but must rest content with certain



suggestions that may lead to a clear understanding of such rules for governmental action as will be proposed. The important evils of unrestrained competition are of three sorts.

*First.* The free play of individual interests tends to force the moral sentiment pervading any trade down to the level of that which characterizes the worst man who can maintain himself in it. So far as morals are concerned, it is the character of the worst men and not of the best men that gives color to business society.

*Second.* The application of the rule of non-interference renders it impossible for men to realize the benefits that arise, in certain lines of business, from organization in the form of a monopoly. The theory of *laissez-faire* sees clearly the beneficent principle in free competition, but fails wholly to recognize a beneficent principle in monopoly.

*Third.* The policy of restricting public powers within the narrowest possible limits tends to render government weak and inefficient, and a weak government placed in the midst of a society controlled by the commercial spirit will quickly become a corrupt government; this in its turn reacts upon commercial society by encouraging private corporations to adopt bold measures for gaining control of government machinery. Thus the doctrine of *laissez-faire* overreaches itself; for the application of the rule which it lays down will surely destroy that harmony between public and private duties essential to the best results in either domain of action.

Let us consider these suggestions in the order in which they have been presented:

*The State may Determine the Plane of Competitive Action.*

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? This law—for I suppose in the ordinary acceptance of that term the statement here presented may be called a law of tendencies—is not of equal application to all forms of business. Whenever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are of course exceptions to this rule. Some men, for example, will not wear "dollar-shirts," preferring to buy the material and see to it that living wages are paid in the making. That is, they declare a private boycott against the great establishments, because the shirts there made do not fit their consciences. An apparent exception also is found in the fact that, in almost any line of business, a few men are able to maintain themselves in the face of fierce competition by giving greater attention to the quality of goods than to the price at which they may be placed upon the market; for there is a lim-

ited number of purchasers who understand that quality is an element of cheapness. Under such conditions it is possible for the producer to incline to the leadings of his moral instincts in business affairs.

But these exceptions do not vitiate the rule laid down. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low prices, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result must be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

In his excellent work upon "The Philosophy of Wealth," Professor Clark calls attention to the fact that the "tribal conscience," which was sensitive to the finer qualities of human character, has given way to the "inter-tribal conscience," which tolerates mercantile contention and winks at the tricks of trade. In making use of such expressions he probably has reference to the singular fact that, while society existed in the tribal state, or was controlled by the governments of local trading guilds, competition was inoperative so far as the members of the same tribe or city were concerned; but in case of trade between members of different tribes, or in the established market-places where citizens of various towns came together, we find the higgling of the market so char-

acteristic of competitive transactions. At the present time, however, these local regulations have given way before the extension of the national idea, and, instead of the old mercantile code of local trade being maintained for all members of the same nation, even local trade has been brought under the direction of the rule which formerly applied only to inter-tribal commerce. Professor Clark portrays the moral effect of this transformation in the following language:

“The man of the present day is actuated now by one influence, now by the other, and has two distinct codes of outward conduct. Moral philosophy, indeed, teaches that his fundamental character is one and unchanging; but as there is one code of practical conduct for peace and another for war, so there is one code for the family, the social circle, and the church, and a different one for mercantile life. The man of business is constantly passing from the jurisdiction of one code to that of the other.

“It is a common remark, that business practices are not what they would be, and that a sensitive conscience must be left at home when its possessor goes to the office or the shop. We helplessly deprecate this fact; we lament the forms of business depravity that come to our notice, but attack them with little confidence. We are appalled by the great fact of moral dualism in which we live, and are inclined to resign ourselves to the necessity of a twofold life.”<sup>1</sup>

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted, exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those

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<sup>1</sup>The Philosophy of Wealth. J. B. Clark, A. M. pp. 156, 157.

forces that must ultimately result in race-deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being are but words to him. He measures success wholly by the rate of profit and controls his business solely with a view to grand sales. If now the state stand as an unconcerned spectator, whose only duty is to put down a riot when a strike occurs (a duty which government in this country is giving up to private management), the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community.

Mr. Pitt early recognized the undue importance of the reckless and the selfish in determining the plane of competitive action. "The time will come," said he, "when manufactures will have been so long established, and the operatives not having any other business to flee to, that it will be in the power of any one man in a town to reduce the wages, and all the other manufacturers must follow." And he added, though it is not of present pertinence to our argument: "If ever it does arrive at this pitch, Parliament, if it be not sitting, ought to be called together, and if it cannot redress the (your) grievances, its power is at an end."<sup>1</sup>

The proprietor of a printing establishment in Vandewater street remarked to me not long ago that he

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<sup>1</sup>As quoted by Howell, *The Conflicts of Capital and Labour*. p. 114.

could point to the employers who were responsible for the harsh regulations and low wages under which the printers of the city of New York worked. "I am powerless," he added, "however much I might desire to manage my business on any other principle than that of getting the most out of the men for the least money." The business of manufacturing ready-made shirts, and in a large measure that of ready-made clothing, has fallen into the hands of disreputable men, for none others will follow the methods necessary to produce cheap goods. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of the great majority of men who compose it.

But what, it may be asked, can the state do in the premises? The state has done much and can do more. That code of enactments known as "factory legislation" is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was, that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which

could be maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no child shall be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed, but competition is not restricted. Or, in the same manner, the law might establish the plane of competition to a normal day's labor for men. As the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action between competitors, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

It may be pertinent in this connection to call attention to a thought, which, it is believed, has not received adequate attention. The opinion is frequently expressed that all the evils of modern society are traceable to the natural depravity of the individual man, and, under the direction of such an explanation, they who wish well to society expend their

energies in exhorting individuals to reform their lives. This is especially the high duty of religious teachers. But have these teachers ever stopped to inquire why their persuasive eloquence has thus far met with meagre success in the reformation of society? Do they really see that, in a society where the code of business ethics conforms to the law "thou shalt love thyself better than thy neighbor," none but industrial hermits can adhere to the law "thou shalt love thy neighbor as thyself." These are certainly contradictory rules of conduct, and, so far as I am aware, no theory has ever sought to reconcile them except the one which claims that, when a man looks out for number one he looks out for his neighbor also. But our analysis has shown that the existence of such a relation is a pure assumption of optimistic natures. When Professor Cairnes demolished the scientific pretensions of *laissez-faire*, he took from us all hope of reconciling the Christian rule of ethics with the prevalent practice of Christian peoples.<sup>1</sup> Our religious teachers, whose analysis of industrial relations stops short of portraying the moral deterioration effected by unbridled competition, mean, if they mean anything, that the men whom they influence should renounce the world of business ambitions. In this fact do we find

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<sup>1</sup>I said above that the strength of the dogma of *laissez-faire* was the simplicity of its statement. It was also suggested in another place that the fact that it was conceived to rest upon some natural law of human relations gave it power. Another source of its influence over the minds of men is found in the fact disclosed in the text. As a philosophy of human conduct it was charmingly soothing, for, by identifying personal and social interests, it harmonized the Christian rule of conduct with the egoistic motives of business life.



the explanation of the curious paradox, that the more effective the persuasion of religious teachers the more rapid will be the deterioration of business society; for, since the result of such persuasion must in large measure be the renunciation by men of delicate consciences of the great business opportunities, society will tend to take upon itself the moral tone of the more unscrupulous. There is great danger, while dwelling with such emphasis upon the problem of individual life, of forgetting its complement, the problem of social life.

They who recognize the pertinency of such a suggestion may find it worth their while to consider again the view of state action above presented. The state, it was claimed, can properly determine the conditions under which competition shall take place, and in this manner permit society to realize the best rather than the worst of the possible lines of actions open to it. We have all of us, doubtless, heard the claim that the state is a moral agency; that it is imposed with moral duties. For a number of years after this phrase came to my notice, it presented to my mind no distinct meaning. It seemed to me to cover the philanthropic purpose of shallow intellects, and to be most frequently used by men who knew not the way of guile nor anything else for certain. But properly understood this phrase contains a deep truth of social philosophy. It does not mean that the law is a schoolmaster coercing men to be good, nor that it is the depository of a social ideal to be admired; but on the contrary, it means that the law is an agency for the realization of the higher ideals of men by guarding them from that competition which would otherwise force them to a lower plane

of action, or else force them out of business. In performing such a duty the state performs a moral function, for it regulates competition to the demands of the social conscience. Under the guiding influence of such a thought the immediate interests of the individual may be made to coincide, in some degree, with the fundamental interests of society, and thus, by disregarding the dogma of *laissez-faire*, the fundamental purpose of those formulating the doctrine is in part realized. Surely religious teachers should be interested in the opportunity which such a thought opens to men.

*The State may Realize for Society the Benefits of Monopoly.*

Let us now turn to consider the second point introduced by the enumeration of the evils that flow from unrestricted competition. The application of the rule of non-interference, it was said, rendered it impossible for society to realize for its members the benefits that arise, in certain lines of business, from organizations in the form of monopoly. It may seem at first strange to speak of a beneficent principle in connection with monopolies, for we are accustomed to associate them with all that is odious, grasping, and tyrannous. The existence of monopolies in favor of individuals has always been regarded as an infringement of personal rights, and history declares that free peoples have always revolted against the assumption of peculiar privileges by any class of men. Much of that which we have come to admire in modern life, and to rely upon in modern character, was developed in those struggles of the

past to overthrow exclusive privileges, and it is on this account easy to understand the feeling of jealous distrust with which private monopolies are universally regarded. For whatever form they may assume, the results which flow from them are always in the same direction. The energies of a growing and expanding society are diverted to the service of a favored class ; and this, when it becomes generally adparent, gives rise to an unhealthy discontent which checks further expansion.

But what is an industrial monopoly ? An industrial monopoly may be defined as a business superior to the regulating control of competition. The peculiar privileges of the past, so far as they were of an industrial character, usually rested on royal grants or charters ; but those of which complaint is now heard, spring from the conditions of modern business activity, or from the peculiar nature of certain lines of business. The distrust with which monopolies are universally regarded arises from the fact that the public is deprived of its ordinary guarantee of fair treatment, so far as it must have dealings with them. But the important thing for us to notice is, that men do not so much complain of the existence of monopolies, for they recognize the existence as inevitable, but that the peculiar privileges and unusual powers which they bestow are perverted from their high purpose to serve private ends. This fact is well illustrated in the development of the medieval craft-guilds. So long as there were no arbitrary conditions imposed for gaining membership in these guilds they were regarded with general favor ; it was only after they had grown into close corporations, and when their members began to cor-

ruptly use the power entrusted to them for personal ends, that they were observed to obstruct the advance of industrial progress.

The most simple form of a monopoly is a business under the direction of a single mind, and, from the standpoint of administration, there is much to be said in favor of that harmony of control and unity of direction which such a management renders possible. Provided a business admits of something like military organization; provided the details of its management have been well worked out; provided its extension to meet new demands may be accomplished by merely duplicating what already exists; and provided the social want which it supplies is wide-spread and constant, exclusiveness in management must lead to efficiency of management, if only men of adequate ability may be found to assume authority. Under such conditions a service may be rendered at less cost to the public than if the agents of the monopoly were broken up into competing groups. There are several reasons why this is true. The fact of an assured demand for services rendered admits of the closest calculations; the extent of the demand also allows of a minute application of the principle of division of labor; the absence of any rivalry between competing concerns precludes the necessity of expending more capital than is required for an economical performance of the service; and, what is perhaps of as much importance as any other consideration, there is no temptation to adopt speculative methods of management which lead to the covering of unnecessary losses of one period by the arbitrarily high profits of another. Thus the *possibility* of cheapness and efficiency seems to lie in the very nature of a

monopoly. This is the beneficent principle of which mention was made, and the practical question is how to realize the benefits of this principle for society.

The relations here set forth will present themselves more clearly to our minds if we throw into comparison the rule of public and the rule of private financing. A private business is managed to secure a profit, and, other things being equal, the higher the price secured for any service rendered, the higher will be the profit. The rule of private financing, therefore, is to maintain the price of goods or services at the highest price which has no tendency to curtail profitable business. The price of goods in this case will equal the cost of production, plus the profit to the undertaker, and the only guarantee against exorbitant rates lies in the fact that purchasers are free to choose from whom they will buy.

The rule of public financing, on the other hand, conforms to an altogether different principle. It is the purpose of government to render services at the lowest price consistent with efficient service. Price equals cost. This is true, because the state, being the manager of the business, has no motive in acquiring riches. The officers of the state receive their salaries which, roughly speaking, may be said to correspond to the profit secured by the managers of private enterprises. The guarantee that price will not be more than cost of production, including salaries of officers, lies in the publicity of accounts, and in all that goes to make up efficient service. In theory, therefore, we should expect parallel results from a monopoly under control of the state and from a business privately organized directed by the prin-

ciple of free competition. For employment of corresponding grades, the salary of an official ought to be equal to the ordinary income of a business manager, and the guarantee of competition ought to work like that of official responsibility; but, unfortunately for the theory, industries vary in the demands which they make upon personal control, and neither guarantee is observed to be unrestrained in its action.<sup>1</sup>

I do not wish to be drawn from the main line of my argument to consider which form of organization is the most applicable to all industries; for this, I apprehend, is not the question at issue. I am arguing neither for nor against state socialism. The position here assumed is, that the doctrine of *laissez-faire* does not permit society to realize in any adequate degree the benefits of organization in the form of monopoly. This is true, for several reasons, but

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<sup>1</sup>It is a significant fact for the student of social relations, that the structure of society is perfectly reflected in the classification of social studies. In France and Germany, for example, where the theory of *laissez-faire* has been less perfectly realized in internal affairs than in England and the United States, we find the science of finance pretty well differentiated from the science of political economy. This is exemplified in the existence of so clear and comprehensive a work upon finance as that of M. Leroy-Beaulieu, or in the monumental works of Wagner and the less pretentious treatise of Roscher. English and American writers, on the other hand, have, for the most part, followed the method of treatment laid down by Mr. Mill. He considers social relations under the name of political economy, and then, under the title "Of the Influence of Government," brings to notice a few of the questions pertaining to finance. This superficial treatment of so important a subject can only be explained by the theory of the relation of public to private duties which Mr. Mill maintained. When government is regarded as a necessary evil, and its activity as an encroachment upon the reserved rights of individuals, it is not natural that the science of finance, which treats of the material wants of the state and the means of their supply, should embrace more than a simple treat-

especially because there are many industries which, from their nature, are monopolies, and cannot, therefore, be safely consigned to the guidance of the rule of private financiering. It is certainly absurd to say that a business superior to the regulating influence of competition, conducted according to the principle that the highest possible price should be demanded for services rendered, can be managed in a spirit of fairness to the public. Such a business ought to be made to conform to the rule of public financiering, but the common prejudice aroused by the teachings of *laissez-faire* renders this difficult of accomplishment. "In some countries," says Mr. Mill, "the desire of the people is for not being tyrannized over, but in others it is for an equal chance to everybody to tyrannize." I am making a use of this profound

ment of the theory of taxation. But among peoples who have never felt in its extreme the philosophy of individualism in industries, but who rather have sought to correlate the interests of all in the higher interests of the state, it is a necessary consequence that the science of finance should extend until it comes to be, in many particulars, the science of public administration. I have sought in the text to bring into contrast the two principles, that of private financiering which controls in political economy, and that of public financiering which controls in the administration of governmental affairs, and I have tried also to suggest that the true society can only be expected when these two complementary principles are brought into harmonious adjustment. One of the chief difficulties under which we in this country suffer, in our endeavors to solve the problem of monopolies, arises from the fact that our publicists and statesmen proceed in profound ignorance of the meaning and purpose of the science of finance. They neither understand the rules upon which public administration should proceed, nor do they perceive how a right use of the principle of public financiering may be made to serve as a check on the workings of the principle of private financiering so far as they are pernicious. Among the evidences that the doctrine of *laissez-faire* is loosening its hold upon the minds of men, will be a more extensive demand for works upon finance and administration.

truth different from that which its author intended, when I say, that the strength of the prejudice in favor of non-interference in commercial affairs is rooted in the degrading ambition of the mercantile classes which this truth portrays. So long as public opinion holds to the presumption in favor of private management, and, as a natural consequence, refuses to enter upon a candid analysis of the nature of industries for the purpose of discovering which of them may be safely consigned to the guidance of competition, large numbers of private monopolies will be maintained. If men persist in thinking themselves free because the law grants them an equal chance with their fellow-men to become monopolists, the great majority will pass their lives in that state which even conservative writers call commercial dependence. Bastiat is right when he speaks of the interest of the consumer as identical with the "social interest," in so far as this question of monopolies is concerned ; for it is only when we regard the problem from the point of view attained by considering the collective interest of society, that we can secure a just appreciation of the relation of government to business activity.

The practical conclusion to which this analysis leads is that society should be guaranteed against the oppression of exclusive privileges administered for personal profit, while at the same time it should be secured such advantages as flow from concentrated organization. I do not at present undertake to say whether this should be done through carefully guarded franchises, through official commissions, through competition of the state with private industries, or through direct governmental management ;



but in some manner this purpose should be accomplished. Such monopolies as exist should rest on law and be established in the interests of the public; a well-organized society will include no extra-legal monopolies of any sort.

But the difficulty of the rule lies in its application. Is there any principle according to which industries may be classified so that the statesman can easily determine what lines of business should be brought under the rule of public financiering? The advocates of *laissez-faire* would say that the government should wait until it was observed that society suffers some actual evil before calling into exercise the sovereign power entrusted to it. Even the most liberal of them go no farther than to admit that the presumption in favor of non-interference may be overcome by the pressure of facts. But if the view we have endeavored to present be accepted, this claim is inadequate to realize a harmonious social organization. For, in the first place, it deliberately chooses that society suffer an evil until it become unbearable before it admits of state action; and, in the second place, it incurs the risk of allowing monopolies to grow until they become stronger than the state. On the other hand, if there be any virtue in the scientific analysis of industrial relations, we should be able to determine, with some degree of accuracy, under what conditions the best results may be expected from an application of the rule of private financiering, and under what conditions the rule of public financiering will the best serve the rational ends of society, and I shall endeavor to suggest the line of thought along which such an analysis should proceed.

All industries, as it appears to me, fall into three classes, according to the relation that exists between the increment of product which results from a given increment of capital or labor. These may be termed industries of constant returns, industries of diminishing returns, and industries of increasing returns. The first two classes of industries are adequately controlled by competitive action; the third class, on the other hand, requires the superior control of state power. Let us consider these a little more in detail:

*Industries of the first class.*—Industries of the first class are such as demand a proportional increase in capital and labor to secure a given increase in product. That is to say, if  $2x$  capital and labor result in  $2y$  product, the application of  $3x$  capital and labor would gain  $3y$  product. The increment of return is equal to the increment of capital. All those businesses in which success depends largely on attention to detail, and where the personal element of the laborer is brought prominently into view, fall under this class. For example, the retail business of merchants is subject to the rule here stated. It is not necessary for public officials to inquire if sugar is sold as low as fair dealings demand, for this business is one that admits easily of multiplication and consequently invites competition. The step from a clerkship in a grocery to the proprietorship of a new establishment is not a difficult one to take, and for this reason we are assured that the profit of an ordinary grocer will not greatly exceed the salary which he pays his head clerk. There can, therefore, be no motive for endeavoring to apply the rule of public financiering to businesses of this sort.

There are certain facts of common observation which seem to contradict the conclusion thus stated. All grocers do not secure the same income, and there are many instances of princely fortunes accumulated in trade. It is also true that of two manufacturing establishments, whose facilities for cheap production are apparently equal, the one will pay higher profits than the other. Yet such facts, properly understood, do not prove that the business in which they occur are securing monopoly prices for services rendered, but rather that they are under a management superior to the management of those industries with which they come into competition. Prices are determined by the ordinary or average cost of production, but if by superior business talent the cost of producing goods in a few establishments is less than the average, or if superior organization permits more work to be done in one establishment than in another, there is in this manner created an unusual margin between cost and price which gives rise to unusual profits. Or to state this distinction in another way: a fortune built out of a monopoly is made up from the excess of the market price over the necessary cost of production, while a fortune created by business talent springs from depressing the cost of rendering a service below the average necessary price. This distinction has not been introduced for the purpose of discussing the propriety of permitting men to enjoy the rental of their business talents, but rather to provide against a criticism sure to arise. While classifying industries according to quickness with which they respond to the influence of competition, we must not complicate our task with results traceable to the varying abilities of those who manage them. We

may then repeat: Industries in which increment of product demands a corresponding increment of capital call for no regulation by law, farther than may seem necessary to determine the conditions under which competition may take place.<sup>1</sup> (See note on page 59.)

*Industries of the second class.*—The same conclusion applies to the second class of industries, where a given increment of product calls for a proportionally greater increment of capital and labor. Assuming the same relation to exist in an established business as before, if  $2x$  capital is required for  $2y$  product, an additional  $x$  of capital will not produce an additional  $y$  of product, but something less. That is to say,  $3x$  capital may produce but  $2\frac{3}{4}y$  product. Industries of this sort are said to be subject to the law of diminishing returns, and it calls for no abstruse argument to recognize that society is quite safe in submitting such lines of industry to the control of competition. The rate of product in the new industry is greater than that in the one that is farther developed, and for this reason we may rely upon individual interest to maintain a large number of separate producers. The agricultural industry is usually cited as an illustration to which the principle of diminishing returns may be said to apply, and, if we leave out of view the element of accruing rent, the conclusion which we have suggested may be applied in its most extreme form to the business of farming. There is no call for government farming.

It is believed that the analysis, by which these two classes of industries have been disclosed, renders a service of no little importance to English

economy, in that it puts a definite meaning into some of its loose expressions. We are doubtless familiar with the common argument in favor of private management. As stated by Mr. Mill, it is as follows:

“The great majority of things,” he says, “are worse done by the intervention of government, than the individuals most interested in the matter would do them, or cause them to be done, if left to themselves. The grounds of this truth are expressed with tolerable exactness in the popular dictum, that people understand their own business and their own interests better, and care for them more, than the government does, or can be expected to do. . . . All the facilities which a government enjoys of access to information; all the means which it possesses of remunerating, and therefore of commanding, the best available talent in the market—are not an equivalent for the one great disadvantage of an inferior interest in the result.”<sup>1</sup>

It will be observed that this reasoning is but the emphatic expression of the truism that things are the best done when done by men personally interested in the doing; it is not, however, satisfactory, for it is not final. Of what use is it to say that “the great majority of things” should be done by the individual, unless we can establish a clear line of exceptions to the rule laid down. It is otherwise but a maxim for the guidance of children, and a curious exemplification of a paternal philosophy. But the foregoing analysis supplies this deficiency. It puts a definite meaning into the phrase, “the great majority of things,” and shows this loose classification to include such industries only as are subject to the law of constant and diminishing returns. It is true that our study regards industrial affairs from a different point

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<sup>1</sup>Principles of Political Economy, Book V, ch. IX, §5.

(This quotation presents a good illustration of *a priori* reasoning, for it leads to classification on the basis of exceptions to assumed premises, rather than as the result of direct analysis.)

of view from that of the English economists. They consider all things from the stand-point of intense production, we from the stand-point of economic distribution. But our analysis, although it has primary reference to the conditions by which the public is guaranteed against monopoly prices, serves equally well in designating those businesses in which competition will secure careful management. This conclusion follows necessarily from the fact that *the struggle for superior success in these businesses is a struggle to depress the cost of rendering services rather than to raise the prices of services rendered.*

*Industries of the third class.*—The peculiarity of those industries belonging to the third class, which we now come to consider, lies in the fact that they conform to the law of increasing, rather than to the law of constant or decreasing returns. The increment of product from an expanding enterprise is greater than the increment of capital and labor required to secure its expansion. Adopting the algebraic formula as before, if  $2x$  capital give  $2y$  product, an economic application of  $3x$  capital will give more than  $3y$  product. Mr. Mill recognizes the relation of product to labor here pointed out, and, erroneously as it appears to me, states it as a principle of general application. “As a general rule,” he says, “the expenses of a business do not increase proportionally to the quantity of business.”<sup>1</sup> But, without considering this point, the important thought in this con-

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<sup>1</sup>I do not mean to say that the fact to which Mr. Mill here calls attention does not exist, but that he fails to observe its true explanation. Beyond a certain point which is quickly reached, extension in those lines of business which feel the influence of competitive action is due to superior talent for organization in him

nection is, that where the law of increasing returns works with any degree of intensity, the principle of free competition is powerless to exercise a healthy regulating influence. This is true, because it is easier for an established business to extend its facilities for satisfactorily meeting a new demand than for a new industry to spring into competitive existence. If this analysis of industries be accepted as correct, there can be no question as to the line which marks the duties of the state. The control of the state over industries should be co-extensive with the application of the law of increasing returns in industries.

In this matter, also, our views coincide with what seems to be the natural conclusions from the premises of English economy. Individual management is conceded to be better than state management, where success depends on the margin of profit which emerges from a careful attention to details ; but, on the other hand, if success depends on the mass of business done, as must be the case in all industries subject to the law of increasing returns, the pertinency of the argument in favor of individual management loses much of its force. And more than this may be justly claimed. Industries of the third class usually exist in the form of corporations, and, so far as this is true, the argument in favor of individual management is by no means conclusive in all cases. For, in the first place, the stockholders are more frequently interested in the manipulation of

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who controls it, and not to growth in demand. The margin of profit, therefore, which emerges from the curtailment of the expense account, as compared with business done, is properly chargeable to *rental* upon the business talent put into the management of the business.—*Cf. ante*, p. 57.

stock than in the management of the details of the business; and, in the second place, the responsibility and care for the detailed management of great concerns must of necessity be assigned to superintendents and agents. It does not present the true state of affairs to say that the management of a corporation will be superior to that of the government, because the men who do the work are personally interested in what they do. The accurate comparison lies between two forms of corporate management, with varying rules for appointment and election, and not between the direct control of owners and the intermediate control of agents. But let us illustrate more fully what is meant by the law of increasing returns.

The railroad business may be cited as a good illustration of this third class of industries. When a railroad is first built through a thinly settled country, it is the problem of the engineer to put the enterprise into running order at the least possible outlay of money. The survey avoids cuts and bridges even at the expense of distance; the rails are light and the rolling stock not the best. The cost of plant is necessarily great in proportion to the business that may be immediately expected. But the development of the country soon taxes the facilities of the road to its utmost, and a new road must be built, or the capacity of the old one extended through the application of fresh capital. It is not difficult to decide which of these methods will be adopted. The capacity of the old road may be extended at a cost comparatively less than would be required by the building of a new road; and, so decided are the advantages of an established business over one struggling



into existence, that it is fair to regard the old road as practically free, for a long time at least, from the competitive interference of new capital.

It may be regarded as a little rash to bring up, by way of illustration, an industry about which there is so much discussion. Many writers, who look at the question rather as railroad lawyers than as students of social organization, maintain that the business of inland transportation is subject to the regulative influence of competitive action; and this they endeavor to prove by calling attention to the fall in through freights. Mr. Edward Atkinson, for example, seems to think the last word on the subject to have been said when he calls attention to the fact that a laborer in the city of New York can afford to eat bread from wheat grown in Dakota.

Out of deference to my readers, however, I will pass this discussion with the suggestion that it is an error to judge of the efficacy of competition in the railroad industry, solely on the basis of freight schedules. There are other tests equally as clear and much more simple in their application. In any business subject to competition, a new enterprise of the same sort as one already established, and bidding for the same trade, ought to spring up in the ordinary course of industrial expansion, and not be delayed until the hope of enormous speculative profits shall induce to such an undertaking. Or, to state the point specifically, if it be true that competition rules in the railroad business, the chief purpose of building new lines within the territory of an established line, should not be to make money by selling out to the stockholders of the line already doing the business. There can be no money in such a speculation unless.

the net receipts of the old road are far in excess of the normal return upon the necessary cost of its plant. For, as has been pointed out, were it the increased traffic which suggested the necessity of increased facilities, these could be more economically supplied by extending the capacity of the established line. It is because certain corporations are gorged with profit that they may be successfully bled by competing concerns of mushroom growth; and it thus appears that the very fact so frequently cited by corporation lawyers as proof of the efficacy of competition is evidence of the inability of this principle to secure fair dealings to the public.

Or again, our comparison of the rule of public and of private financiering leads to the conclusion that, when the guarantees upon which each respectively rests are unimpeded, parallel results may be expected in all forms of industry. From this it follows that personal income from personal services should be about the same for all businesses of the same grade. But compare the salaries of public officials with railroad officials; or the salaries of railroad officials who are "let in on the ground floor," with those of employés whose duties are quite as important for the proper management of the business, but of a more perfunctory character. Or consider the salaries that men pay themselves for rendering that service so important to society of manipulating stock; or again, the large amounts gotten out of the earnings of the roads in the form of lawyers' fees, arbitrators' fees and the like, before any dividends are declared. Profit is what a man pays to himself when he employs himself, and where competition works its normal results no man can pay to himself very much more than he

will be obliged to pay to other men for services of the same grade. I will not call this excess of self-payment evidence of corruption, as would be done if a man were in the employ of the government. for the law has nothing to urge against it; I only say that competition does not regulate those businesses where great discrepancies of personal income are permanently maintained among men of equal talent.

There are many other lines of business which conform to the principle of increasing returns, and for that reason come under the rule of centralized control. Such businesses are by nature monopolies. We certainly deceive ourselves in believing that competition can secure for the public fair treatment in such cases, or that laws compelling competition can ever be enforced. If it is for the interest of men to combine no law can make them compete. For all industries, therefore, which conform to the principle of increasing returns, the only question at issue is, whether society shall support an irresponsible, extra-legal monopoly, or a monopoly established by law and managed in the interest of the public. In this latter way may the benefits of organization in the form of monopoly be secured to the people, and in no other. The great argument against public monopolies is that government is inefficient and corrupt, and this brings us to a consideration of the third class of the evils which result from the theory of non-interference as maintained in modern society.

*Social Harmony may be Restored by Extending the  
Duties of the State.*

As the third class of evils attending the attempted realization of the doctrine of *laissez-faire*, may be

mentioned the injury worked to establish government. The policy of restricting public powers within the narrowest possible limit tends to weaken government and render it inefficient; this leads to corruption on the part of public officials, which, in its turn, invites to yet greater corruption in private practices. Excluding for the present Federal administration, no one will deny the inefficiency of the government of our states, while that of our municipalities is generally regarded as a dead failure. This fact is urged by the advocates of *laissez-faire* as the strongest argument in favor of their doctrine. See, they say, what a weak and halting thing this government is; it cannot do well what now is in its hands, how absurd to extend the range of its activity! There seems to be sound sense in this statement; and yet, notwithstanding its apparent reasonableness, it is believed to rest upon superficial reasoning, for it commits the grave error of mistaking a result for a cause. I would not go so far as to say that the statement would be wholly true if turned end for end, but there is truth in the charge that the inefficiency of local government is in large measure traceable to the endeavor to realize the *nolle tangere* policy among a people whose energies are directed by the commercial spirit.

The advocates of non-interference have treated government as the old physicians were accustomed to treat their patients. Was a man hot he was bled; was he cold he was bled; was he faint he was bled; was he flushed he was bled; until fortunately for him he passed beyond the reach of leech and lance. This has been, figuratively speaking, the form of treatment adopted by the people of the United States for

their local governments, and it has worked its natural result of feebleness and disintegration.

It is quite possible that some of my readers will protest against such a presentation of the case, resting their criticism upon the well-known tendency towards an increase in legislation in these latter days. This is what Mr. Spencer complains of, and it is also the occasion of that remark, so often heard, that sessions of legislatures are far too frequent. But there are two thoughts which suggest themselves in reply to such a criticism.

Firstly: The multiplication of laws, so far from being out of harmony with the theory of individualism as understood by democratic peoples, is a natural consequence of its general acceptance. A philosophy of social relations, like that of *laissez-faire*, which tends to efface the sharp distinction between public and private interests, must inevitably result in an extension of pernicious legislation; for, under the direction of such a philosophy, men feel themselves warranted in using public machinery for private ends. This conclusion is fully sustained by considering the nature of the bills which gain the approval of our modern law-making bodies. The larger number of these are bills urged and passed for private ends. It is not claimed that such a result is chargeable to corruption, (a moderate amount of which must always be allowed for in reasoning upon public affairs), nor does it necessarily show that the interests of the public are consciously overlooked by their appointed guardians; but this fact is believed to be tenable evidence that the premises of individualism have gained so firm a hold upon the common mind that legislators are prone to identify the interests of the public with those of individuals.

Secondly: It is believed that the above criticism mistakes the true center of public power. The importance of government, or the extent of the functions assigned to it, is not measured by the amount of legislation which its law-making bodies turn off from year to year, but rather by the nature of the administrative duties imposed upon it, or by the extent of the powers assigned to its courts. Indeed, the stronger the executive and judicial departments of a government, the less opportunity will there be for particular legislation, and the more likely will it be that such laws as are passed will conform to the just requirements of general laws. It is especially the administrative functions of government that the doctrine of *laissez-faire* attacks; and the strength of the attack lies in this, that individuals desire the opportunity of performing services of "collective interest" under the ordinary rule for private financiering. It must, then, be admitted that the above criticism does not touch the point. The increased legislation which we all deplore does not prove that *government* is growing strong and extending its range of duties; it is rather the evidence of increasing weakness, for it shows that government is incapable of adequately defending the public against the encroachment of individuals.

The constitutional history of the various states of the Union, so far as it pertains to the legal restrictions imposed upon their administrative powers, bears directly upon the point under consideration. I cannot, of course, present even the outline of this history, but there are two facts well worth a moment's notice. The contemporaneous growth of the power of corporations, on the one hand, and of municipal

corruption, on the other, bears for us a deep significance. The rise of corporations into such power that they menace the stability of society, by controlling in their favor legislation, dates from the time when the states were deprived of all direct control over inland transportation. It will be remembered that between the years of 1830 and 1845 it was the accepted policy in this country for the states to undertake the building of railroads and canals. The Board of Internal Improvements was a familiar figure in local politics, and the business intrusted to it was as important as any that claimed public attention. For quite a number of reasons which might be mentioned this industrial experiment of the states ended disastrously, and left the local governments involved in debt; and it was the reaction in public sentiment occasioned by the taxes imposed to meet public obligations which led the people to so amend the constitutions that the states could never again undertake industrial duties.

The states being thus forced into the background, the way was left clear for the development of private enterprise and corporate management. But it was a mistake to suppose that private capital was adequate to meet the needs of a growing country. The two hundred and fifteen millions of acres of public lands granted by the Federal government to these corporations; the one hundred and eighty-five millions of municipal bonds issued for the building of railroads; the many instances of local taxes paid to construction companies; all testify to the inadequacy of the theory adopted. It is no occasion for surprise that legislation for private ends greatly increased.

But the spirit thus engendered did not rest sat-

isified with placing restriction upon the industrial powers of the states, in order to make room for private enterprise in the building of railroads and canals. In all matters where any possible question arose between government and corporations, the advocates of governmental control were obliged to prove their case. At the present time the water-works in many of our towns are managed by private companies. It is the exception for gas to be supplied through public works, while there is no city, so far as I am aware, that maintains control over its street railways. And in perfect harmony with this whole line of policy is the morcelization of government among separate and independent boards, rather than the concentration of power in the hands of responsible officials in such a manner as to make it worth their while to attend to business. Under the sway of this policy, municipal government has become corrupt, while in many cases corporations have passed the bounds of all decency. These two tendencies have developed contemporaneously, and the question is whether there is any casual relation between them.

As I view the matter, there is certainly a close connection between the rise of the menacing power of corporations and the rise of municipal corruption. They are both an inevitable result of the too great confidence that has been placed in the regulative potency of competition, on the one hand, and of the too great suspicion with which governmental action is viewed, on the other. It is impossible, as society is at present organized, properly to correlate public and private duties. The motives leading men in one direction are overpoweringly strong when compared with the motives leading in the other direction.



And, under such circumstances, it is futile to expect that either domain of activity will exercise a healthful regulating influence upon the other.

The basis of this distinction has been already suggested.<sup>1</sup> We have said that society, being the fundamental fact disclosed by an analysis of human relations, confines within itself all individual growth and action. The activity which it displays is either public or private; that is to say, the activity of the state embracing all governmental functions, or that of individuals or corporations which is undertaken for private ends. But the important point that should be noticed in this connection is, that these departments of social activity are constantly acting and reacting each upon the other. The line which separates them is clearly defined so far as the principles are concerned to which each must conform, for the one is subject to the rule of public and the other to the rule of private financiering; but the growth of society demands continuous modification in the assignment of specific functions. Recognizing then the mutual relations that exist between public and private duties, it is easy to understand why failure to achieve the best results in one department of activity must injuriously affect the other; and the pertinent question for one who would direct by his thought the development of society is, under what

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<sup>1</sup>It may be right to say that, for a few pages following, this essay quotes from a somewhat comprehensive study upon Public Debts, about to appear from the press of Messrs. Appleton & Co., of New York City. My apology for thus making double one of the same manuscript is, that the address of which this monograph is an expansion was not intended for wide circulation; but, having attracted some attention in its original form, it seems a little pedantic to now change the wording, merely to avoid formal repetition.

conditions may the best results be expected from both departments of activity?

This question has already been answered. The best results may be expected when the duties assigned to public officials, and the functions performed by private individuals, are so correlated that the inducements offered are of about the same strength in both domains of activity. It is of course necessary, in applying this rule, to take in consideration other than merely pecuniary motives by which men are led to act. Considerations of social distinction, the desire to exercise such powers as one may possess, the pleasure of filling well a responsible position, indeed all the varied demands of human nature must be admitted into the account. If the importance of the state is so emphasized, and the allurements in the form of social position or emoluments of office are so strong, that the best talent of the people is drawn into the public service, a powerful and efficient government will probably be established, but a very bad society. It is believed that Prussia is now suffering from the dearth of talent and vigor in common business enterprises, and that she must continue to suffer in this manner until the state relaxes its hold upon the brilliant and talented of her youth. A German sewing machine is a very bungling affair, made after the abandoned models of American patterns; but German cities are well governed.

In our own country, on the other hand, one observes that society has developed in the opposite direction. The great prizes here offered are in the line of individual initiative. Our civil service is so poor that an official has no social position, while a business man who accumulates money is generally re-

garded with deference. The salary paid by the state is nothing when compared with what men of ordinary talent may secure, either as profit if engaged in business on their own account, or as salary if working for a private employer. It is, therefore, no occasion for surprise to learn that in this country we have very perfect sewing machines, but poorly administered cities.

One cannot fully appreciate this view of the case without calling to mind the possibilities of acquiring wealth in a rapidly developing industrial society. The atmosphere of such a society is intensely commercial, and not only do men of ability and energy refuse to consider a public position as desirable for themselves, but they regard with supercilious condescension one who is willing to assume public office in a municipality. And it may be added in this connection, as bearing on the question of municipal corruption, that the moral judgments of a public officer are very much like those of his neighbors who elect him, and the sentiments which control in the transaction of their daily business will probably give color to his administration. But the ordinary business life of the nineteenth century is such as to render men familiar with methods of speculation, and to conform their ethical principles to the law of supply and demand. The spirit of speculation partakes in character of the spirit of gambling. It judges all businesses undertaken on the basis of their pecuniary success, and has little care for the equivalent given for what is gained. A fine sense of what is just cannot exist where it prevails, nor can a delicate appreciation of what is honest be long retained by business men.

Suppose now, that a man of good intentions come into office in a community breathing the atmosphere of commercial speculation (let us say the office of Mayor in his town or Governor in his state), what does he see upon looking into the society whose welfare is placed in his hands? He sees it to be no uncommon thing, where contracts are uncontrolled, and where the rule of individual ownership is indiscriminately applied to all of the agencies of production, that fortunes are established in the hands of men and families having no peculiar right to them. Men who are lucky in owning real estate that other men want; men whose mines happen to yield purer copper than other mines worked; men with timber lands, salt wells, and other gratuitous products of nature that come into demand as population increases; all these increase their pecuniary importance out of proportion to their effectiveness as producers of wealth. He sees also, that many businesses which, from their very nature, must be carried on as monopolies, are given over to private control, that the principle of private financing is applied to them with all its vigor, and that in this manner large fortunes are accumulated and large power over men acquired, exceeding by far the importance of any individual to society. He sees also that in many businesses, naturally subject to the regulating influence of competition, artificial combinations are established by means of which monopoly prices are secured from consumers. But such privileges as these cannot pass unchallenged, and it follows that the important lawyers of every town are retained at large salaries to defend by their tempered talents the privileges that monopolists have

secured; while other lawyers are hired to depart from their legitimate profession to secure for business men some special legislation. Yet all this lies within the law. It cannot be branded as corrupt, although the least sum taken by a public official beyond his stated salary is properly called robbery.

As contrasted with this state of affairs, what does our successful candidate see in the office to which he has been elected? He will not long remain an incumbent before discovering that the position which he sought as a dignity brings with it no honor. What he thought to be a place of responsibility and power proves to be the center of no great influence, demanding in reality little beyond the perfunctory duties of a ministerial officer. He finds that there is small demand for the exercise of judgment and narrow play for the development of manly faculties;<sup>1</sup> he also learns, through the sinister suggestions of those whose personal interests he does not forward, that his tenure of office is insecure; and, last of all, he finds that his salary does not suffice to keep his family respectably in the social circles in which they wish to move, and that the gratitude of republics does not extend to provision for their servants against sickness and old age. Repeating again the assumption that our candidate is honest, at least within the meaning of the law, and that he is conscious of ordinary business capacity, we are war-

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<sup>1</sup>A tendency towards municipal reform has lately shown itself, which will in some degree set aside such criticisms as those expressed in the text. I refer to the abolition of special boards and the concentration of responsible power in the hands of the mayor. And yet it cannot be admitted that such a change in the mechanism of government can reach the seat of the evil. Municipal corruption is merely one of the symptoms of social disorder.

ranted in concluding that the career of an official will not harmonize with his tastes. He will, upon the first opportunity, retire to private life, which presents larger scope for efficient activity, and where the prizes to be gained are much greater.

Such are the conditions of a public career in most of the municipalities of the United States, and the observed results are altogether what might have been expected. The incumbants of local office are usually men of indifferent ability. If not actually depraved, they are at least colorless in character. Among "city fathers" of this sort there appears, from time to time, the shrewd yet unscrupulous man who, for personal aggrandizement, assumes complete control over public affairs. This is the explanation of "rings" and "jobs." Public corruption, therefore, is no accident. It is the necessary result of the idea that the best thing to do with a public official is to lay him on the shelf out of harm's way.

Is it not, then, correct to say that the theory of non-interference, which regards individual enterprise as the only proper depository of industrial power, and which relies wholly on competitive action as the guarantee of fair treatment in business affairs, is an obstacle to the restoration of harmony in social relations? Under the influence of the sentiment engendered by this theory, we see corporations to have attained power at the expense of the importance of the states; we see the symmetry of government to have been destroyed by the unwarranted extension of its legislative functions; we see the line between public and private interests to have been practically effaced by the prevalent philosophy of formal optimism, and, as a natural consequence, the ma-

chinery of government easily perverted from its high purpose to serve the private ends of corporations and individuals; and, what is worse than all else, we are beginning to see these disintegrating and enfeebling tendencies to bear their normal fruitage of political corruption and governmental incompetency. I am not arguing for any particular line of public policy, but rather for a change in the attitude of mind with which men commonly regard the agency of government; for great reforms are, after all is said, nothing but a change in the way people look at things.

#### THE TEST OF CONSERVATISM.

No one can be more conscious than myself of the incompleteness of the foregoing analysis, nor of the danger incurred that so hasty a presentation may give rise to conclusions for which I would not wish to be held responsible. And it may not be inappropriate to say, as guarding somewhat against misunderstanding, that I consider the attitude of mind by which this essay has been directed to be essentially conservative. It stands opposed to anarchy on the one hand, which is individualism gone to seed; and to socialism on the other, which, both historically and logically, is a revolt against the superficial claims and pernicious consequences of *laissez-faire*. Its purpose is to conserve true democracy, and this it would do by weakening the influence of commercial democracy which now rules the minds of men.

That my readers may see more clearly what is meant by a conservative application of the principles which our analysis has disclosed, I venture to suggest the lines along which further study might with

profit be pushed. The social problems of the present day, so far as they are forced upon us by the prevailing tendencies of industrial affairs, are of three distinct classes. The first may be termed the question of constitutional development; the second the question of monopolies; the third the question of labor-relations. All of these questions are intimately connected, and should be solved with a view to the mutual interests which they represent.

But before speaking directly of these problems, let us call attention to the critical point at which the people of this country have arrived in the process of their development as a nation. Other countries have the apparent advantage of being made up of homogeneous peoples, and, to a certain extent, of having to do with problems which spring from the unfolding of homogeneous ideas. This is not the case in the United States. The citizens of this country come from various parts of the world, bearing with them their race-thoughts and hereditary inclinations; and it thus comes about that, upon American soil, the conflicting ideas of older peoples have found a battle-ground. This, says the confirmed optimist, must lead to the establishment of a strong civilization, for only the best traits of the mingling races will be conserved. This, says the confirmed pessimist, will certainly prove the destruction of whatever by accident is good in American institutions. For myself, professing to be neither a fatalist optimist nor a fatalist pessimist, but professing rather to recognize the social destiny of man to lie largely under his own control, this mingling of races and of diverse ideas serves only to impress strongly upon my mind that the present is a critical epoch in the history of the American people.



But what are the ideas contending for mastery? What are the alternatives between which the people of this country are called upon to choose? Without specifying too minutely, we may say that most of the problems now claiming attention may be solved either by a further application of the principle which characterizes English political philosophy, or by an adjustment of our social relations to the principle which underlies German polity. The former lays stress upon the importance of the individual, and endeavors to define his rights by holding those who exercise power to a strict account. The latter looks in the opposite direction. It would merge the personality of the individual into that of the state, believing his rights to be guaranteed by massing so much power in the hands of the government that no motive can exist for administering public affairs in a tyrannous manner. That is to say, to speak in language more common, though perhaps no more easily understood, the American people are obliged to choose between the principle of individualism and the principle of socialism.

It is a mistake to admit of any compromise between these ideas. We might as well suggest to a traveler that he had better compromise between going east or going west in search of sunshine, and advise him to take his way northward.<sup>1</sup> The suggestion

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<sup>1</sup>Mr. Hyndman has committed an historical blunder in the very title which appears upon the cover of his book. There is no "Historical Basis of Socialism in England." What Mr. Hyndman has shown is, that the theory of industrial rights in England has not kept pace in its development with the theory of political rights, and that an industrial mechanism has grown up which has not proven equally beneficial to all classes of Englishmen. But such a portrayal does not disclose an historical basis for socialism, for the

that the society of the future will be the survival of whatever is best in both socialism and individualism is evidence to my mind of a lack of intellectual discernment, for it springs from the pernicious habit of classifying social movements according to their external form, rather than by the life-giving principle which underlies them. Is public support of education socialistic or individualistic? Is the ownership of gas works by the municipal corporation socialistic or individualistic? My reply is, you cannot tell until you are acquainted with the consensus of opinion which permits these duties to be brought under the control of government. Socialism is more than a form of society, though neither its advocates nor its critics appear to appreciate the fact.

Were it my purpose to develop the line of thought thus suggested in a logical manner, it would be necessary at this point to show why the American people should hold to the English theory of personal liberty rather than adopt the German theory of state supremacy; but such an undertaking would carry me far beyond the appropriate limits of a monograph. Indeed, my only further purpose is to show what is meant by the claim that the relation of government to industrial action, portrayed in this essay, is of essentially a conservative character; and this can be done in no clearer manner than by calling attention to the fact that the views entertained are the natural and necessary development of that principle of polit-

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development of which he speaks has not changed the quality of thought which gives character to the average Englishman. The sense of personality is stronger now than ever before. There can be no historical basis of socialism in England until the historical forces have changed the character of Englishmen.

ical liberty fundamental in English political philosophy. The opinions expressed in this essay are motivated by the theory of individualism, and not by the theory of socialism. They trace the evils of existing society to the fact that the principle of personal responsibility in the exercise of social powers has been arrested in its development, and they look for escape from present difficulties to the extension of this principle in industrial affairs. It is inaccurate to regard such a position as a compromise with socialism, or as an abandonment of the true spirit of English economic philosophy, or as a "reaction in political economy." It is true that the theory of governmental action, for which this essay contends, would press the principle of personal responsibility farther than it has yet been applied; but it is nevertheless conservative, for its aim is to bring industrial society into harmony with the fundamental thought of our political constitution. There is no other escape from socialism.

But how does the theory of industrial responsibility fit into the social problems? The first service which it renders is to limit the claims of any particular question. It draws, for example, a clear line between the labor question and the monopoly question. The nature of the responsibility in the first instance pertains to the relations which an employer, as the administrator of industrial power, holds to the men whom he employs; the nature of the responsibility in the second instance holds the employer and his men, together representing an industrial organization, accountable for the manner in which they serve the public. Nothing can lead to greater calamity than the confusion of these two questions,

for the method of treatment is essentially different for each. The labor question has to do with the internal organization of particular industries ; it contemplates labor relations, and holds in view the rights and conditions under which work is done. All the matters which it considers must be adjusted on the basis of free contracts ; for to settle them in any other way would result in the destruction of legal liberty. It is sometimes urged as against this conclusion that the Justices of the Peace in old England could fix wages ; this is true, but it should be remembered that they could also order a man to be flogged who would not work at the wages fixed. It follows, then, that the labor question is not, and from its nature can never become, a political question, and they deceive themselves who suppose a well-crystallized political party may be erected upon the interest which it represents. And it should be noticed that the rules of interference of government with industrial action, which have been stated above, do not contemplate the solution of the labor problem. Indirectly, it is true, the state may lend its influence in such a solution by enacting laws for raising the plane of competitive action. Possibly, also, boards of legal arbitration may be established with some degree of success for some particular industries ; but such measures do not touch the vital point of the labor controversy.

With the monopoly question, on the other hand, the state has everything to do. This is of necessity a political question ; and, while it may be true that the laboring class is more directly interested in it than other classes, it is yet a question which touches the interests of all who are consumers of goods.

And it is most unfortunate that the leaders of the workingmen in this country have so confused the labor question with the monopoly question, that even men of considerable discernment believe them to be identical; for this confusion leads the conservative public to oppose every change in industrial affairs, thinking all changes to be necessarily in the direction of socialism. But one who appreciates the theory of personal responsibility cannot be thus deceived. There is a natural and an eternal enmity between the principle which underlies the conception of English liberty and monopolies of every sort, whether they be individualistic or socialistic. It is an intellectual blunder to say that all extensions of the functions of government are in the direction of socialism, for it may be that such a movement contemplates merely the extension of responsible control over a business which would be otherwise irresponsibly managed. Such an extension of governmental duties, therefore, finds its warrant in English political philosophy. The occasion for complaint is oppression, and not a particular form of oppression. A tyranny which springs from the unregulated workings of self-interest is as pernicious in its results, and presses as hardly upon the individual, as a tyranny which rests upon political privilege. And, if this essay have any merit, it consists in its candid recognition that the science of industrial society has not rendered to humanity the highest service of which it is capable, until its analysis of social relations discovers some principle for the guidance of legislation in directing or limiting competitive action. It was to this end that industries were classified as subject to the law of constant, increasing or diminishing re-

turns; for it is on the basis of some such classification that legislation must proceed in dealing with the question of monopolies.

The third question in the social problem, as above portrayed, pertains to the proper residence of political power for the control of industrial action. This is indeed a broad question. A glance at the structure of government in the United States shows it to be adjusted to the requirements of two leading ideas: the one pertaining to the balance of authority between the various departments which together make up government; the other to the balance of authority between the various grades of government which together make up the nation. It is this latter characteristic which is of importance to the present discussion. The theory of democracy, in addition to urging that power should only be placed in the hands of responsible agents, demands that all powers granted should lie as closely as possible to those upon whom they are exercised. This is equivalent to saying that local governments are the stronghold of democracy, and that they who profess to believe in democracy should come to the defence of the states against encroachments upon their original powers. It need hardly be said that the states have lost their importance as administrative centers. The encroachments of congressional action, on the one hand, and of the private corporations on the other, have reduced them to relative incompetency, and they are not now regarded as capable of dealing with such questions as the development of industrial society would naturally impose upon them. So far as the Federal government is concerned, the extension of its powers thus far does not seem to be open to severe criticism,

and we are only solicitous as to what this tendency will bring about in the future. The present condition of affairs is easily stated. Men are now coming to realize the disastrous consequences likely to emerge from the continued sway of irresponsible corporate power. They see that an extension of governmental agency can alone retain for them the fruits of an advanced industrial civilization; and, inasmuch as the states are incompetent to deal with such difficult questions, they turn of necessity to the Federal government. There is, of course, room for honest difference of opinion as to the desirability of such a tendency, but the fundamental point at issue should not be obscured in the hasty agitation for relief from pressing evils. It should be held firmly in mind that they who advocate the extension of Federal powers do not seek to conserve the American theory of government. They are Imperialists, and not Federalists.

This essay may then be regarded as a plea for the old principle of personal responsibility as adequate to the solution of all social, political and industrial questions; but it is at the same time urged that this principle must be accepted fearlessly and applied without reserve. It has not been attempted to portray the nature of this responsibility as regards labor relations; for this essay was limited to a consideration of the proper industrial functions of the state, and it is believed that the labor problem must be worked out on the basis of freedom of contract. To admit that the state should control labor relations is to admit the essential point in socialism. But the attitude of this monograph is different with regard to monopolies. These, it is claimed, should be controlled by state authority, and it is suggested that

the American theory of political liberty will lead men to rely as far as possible upon the efficiency of local governments in the exercise of such authority. When one considers the present attitude of private corporations towards the public, and the relation which exists between the Federal government and the state governments, he is constrained to say that the times are ripe for the rise of a democratic party.